

VILLAGE OF HERSEY
Osceola County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended December 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Hersey	County Osceola
Audit Date December 31, 2006	Opinion Date February 16, 2007	Date Accountant Report Submitted to State: February 16, 2007	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature Campbell, Kusterer & Co. P.C.		Zip 48707	

VILLAGE OF HERSEY
Osceola County, Michigan

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Osceola County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

February 16, 2007

To the Village Council
Village of Hersey
Osceola County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Village of Hersey, Osceola County, Michigan as of and for the year ended December 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Hersey's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Village of Hersey, Osceola County, Michigan as of December 31, 2006, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

VILLAGE OF HERSEY
Osceola County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2006

The Management's Discussion and Analysis report of the Village of Hersey covers the Village's financial performance during the year ended December 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at December 31, 2006, totaled \$202,226.03 for governmental activities and \$184,002.53 for business activities. Overall total capital assets remained approximately the same.

Overall revenues were \$154,386.83 (\$130,459.03 from governmental activities and \$23,927.80 from business-type activities). Governmental activities had a \$11,359.39 decrease in net assets. Business-type activities had a decrease in net assets of \$5,665.94.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Village are reported as governmental activities and business-type activities. These include the General Fund, the Major Street Fund, the Local Street Fund, the Ball Park Fund, the Cemetery Fund, the Cemetery Perpetual Care Fund and the Blodgett Landing Park Fund.

VILLAGE OF HERSEY
Osceola County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

Governmental Funds: Some of the Village's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Village's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Village's governmental funds include the General Fund, the Major Street Fund, the Local Street Fund, the Ball Park Fund, the Cemetery Fund, and the Cemetery Perpetual Care Fund.

Business Type Funds: The Village has a Blodgett Landing Park Fund which includes the activity of providing recreation to Village residents.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Total cash in bank at December 31, 2006, was \$124,889.29.

Outstanding principal on long-term debt was \$173,000.00 on December 31, 2006.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The General Fund pays for most of the Village's governmental services. The most significant is public works which incurred expenses of \$27,342.08. The Blodgett Landing Park Fund incurred \$11,443.00 in depreciation expense and \$18,150.74 in other operating expenses.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Village's governmental activities and business-type activities invested \$0 in capital assets.

The Village's business-type activities paid \$6,000.00 of principal on the long-term debt payable.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Village Clerk or Village Treasurer at 231-832-8055.

VILLAGE OF HERSEY
Osceola County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

December 31, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	122 881 02	2 008 27	124 889 29
Taxes receivable	11 813 22	-	11 813 22
Due from State of Michigan	11 968 95	-	11 968 95
Total Current Assets	<u>146 663 19</u>	<u>2 008 27</u>	<u>148 671 46</u>
NONCURRENT ASSETS:			
Capital Assets	57 896 13	400 516 26	458 412 39
Less: Accumulated Depreciation	<u>(13 122 53)</u>	<u>(34 329 00)</u>	<u>(47 451 53)</u>
Total Noncurrent Assets	<u>44 773 60</u>	<u>366 187 26</u>	<u>410 960 86</u>
TOTAL ASSETS	<u>191 436 79</u>	<u>368 195 53</u>	<u>559 632 32</u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Payroll taxes payable	403 76	-	403 76
Internal balances	<u>(11 193 00)</u>	<u>11 193 00</u>	<u>-</u>
Total Current Liabilities	<u>(10 789 24)</u>	<u>11 193 00</u>	<u>403 76</u>
NONCURRENT LIABILITIES:			
Bonds payable	-	139 000 00	139 000 00
Contract payable	<u>-</u>	<u>34 000 00</u>	<u>34 000 00</u>
Total Noncurrent Liabilities	<u>-</u>	<u>173 000 00</u>	<u>173 000 00</u>
Total Liabilities	<u>(10 789 24)</u>	<u>184 193 00</u>	<u>173 403 76</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	44 773 60	181 994 26	226 767 86
Restricted	28 454 05	-	28 454 05
Unrestricted	<u>128 998 38</u>	<u>2 008 27</u>	<u>131 006 65</u>
Total Net Assets	<u>202 226 03</u>	<u>184 002 53</u>	<u>386 228 56</u>
TOTAL LIABILITIES AND NET ASSETS	<u>191 436 79</u>	<u>368 195 53</u>	<u>559 632 32</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HERSEY
Osceola County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended December 31, 2006

FUNCTIONS/PROGRAMS	Expenses	Program Revenue		Governmental Activities
		Charges for Services	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:				
Legislative	12 399 05	-	-	(12 399 05)
General government	27 013 46	1 290 00	-	(25 723 46)
Public safety	480 00	-	-	(480 00)
Public works	80 296 53	-	-	(80 296 53)
Recreation and culture	13 796 69	-	100 00	(13 696 69)
Other	3 832 69	-	-	(3 832 69)
Total Governmental Activities	137 818 42	1 290 00	100 00	(136 428 42)
Business-Type Activities:				
Recreation and culture	29 593 74	19 915 50	-	-
Total Business-Type Activities	29 593 74	19 915 50	-	-
Total Government	167 412 16	21 205 50	100 00	(136 428 42)
General Revenues:				
Transfers				(4 000 00)
Property taxes				46 806 14
State revenue sharing				76 877 80
Interest				2 389 59
Miscellaneous				2 995 50
Total General Revenues				125 069 03
Change in net assets				(11 359 39)
Net assets, beginning of year				213 585 42
Net Assets, End of Year				202 226 03

The accompanying notes are an integral part of these financial statements.

Business-Type Activities	Total
Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
-	(12 399 05)
-	(25 723 46)
-	(480 00)
-	(80 296 53)
-	(13 696 69)
-	(3 832 69)
-	(136 428 42)
(9 678 24)	(9 678 24)
(9 678 24)	(9 678 24)
(9 678 24)	(146 106 66)
4 000 00	-
-	46 806 14
-	76 877 80
12 30	2 401 89
-	2 995 50
4 012 30	129 081 33
(5 665 94)	(17 025 33)
189 668 47	403 253 89
184 002 53	386 228 56

VILLAGE OF HERSEY
Osceola County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
December 31, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Cemetery Perpetual Care</u>
<u>Assets</u>				
Cash in bank	13 445 38	70 234 76	8 744 50	28 454 05
Taxes receivable	11 813 22	-	-	-
Due from State of Michigan	5 528 00	4 332 59	2 108 36	-
Due from other funds	<u>11 193 00</u>	<u>2 282 15</u>	<u>1 111 98</u>	<u>-</u>
Total Assets	<u>41 979 60</u>	<u>76 849 50</u>	<u>11 964 84</u>	<u>28 454 05</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Payroll taxes payable	403 76	-		
Due to other funds	<u>3 394 13</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>3 797 89</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:				
Fund balances:				
Reserved	-	-	-	28 454 05
Unreserved:				
Undesignated	<u>38 181 71</u>	<u>76 849 50</u>	<u>11 964 84</u>	<u>-</u>
Total fund equity	<u>38 181 71</u>	<u>76 849 50</u>	<u>11 964 84</u>	<u>28 454 05</u>
Total Liabilities and Fund Equity	<u>41 979 60</u>	<u>76 849 50</u>	<u>11 964 84</u>	<u>28 454 05</u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
2 002 33	122 881 02
-	11 813 22
-	11 968 95
<u>-</u>	<u>14 587 13</u>
<u>2 002 33</u>	<u>161 250 32</u>

-	403 76
<u>-</u>	<u>3 394 13</u>
<u>-</u>	<u>3 797 89</u>

-	28 454 05
<u>2 002 33</u>	<u>128 998 38</u>
<u>2 002 33</u>	<u>157 452 43</u>
<u>2 002 33</u>	<u>161 250 32</u>

VILLAGE OF HERSEY
Osceola County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
December 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	157 452 43
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	57 896 13
Accumulated depreciation	(13 122 53)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Long-term debt	<u>-</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>202 226 03</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HERSEY
Osceola County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended December 31, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Cemetery Perpetual Care</u>
Revenues:				
Property taxes	46 806 14	-	-	-
Licenses and permits	90 00	-	-	-
State revenue sharing	33 899 72	28 903 94	14 074 14	-
Charges for services	-	-	-	-
Interest	35 86	978 78	305 83	1 063 45
Miscellaneous	<u>736 60</u>	<u>1 735 40</u>	<u>523 50</u>	<u>-</u>
Total revenues	<u>81 568 32</u>	<u>31 618 12</u>	<u>14 903 47</u>	<u>1 063 45</u>
Expenditures:				
Legislative:				
Village Council	12 399 05	-	-	-
General government:				
President	2 049 92	-	-	-
Clerk	9 576 60	-	-	-
Treasurer	5 235 78	-	-	-
Village hall and grounds	6 215 90	-	-	-
Cemetery	-	-	-	-
Public safety:				
Planning and zoning	480 00	-	-	-
Public works:				
Department of Public Works	27 342 08	-	-	-
Highways and streets	-	24 285 65	20 798 77	-
Street lighting	5 710 62	-	-	-
Recreation and culture:				
Recreation	-	-	-	-
Parks	13 499 01	-	-	-
Other:				
Payroll taxes	<u>3 832 69</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>86 341 65</u>	<u>24 285 65</u>	<u>20 798 77</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(4 773 33)</u>	<u>7 332 47</u>	<u>(5 895 30)</u>	<u>1 063 45</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(5 000 00)</u>	<u>-</u>	<u>-</u>	<u>(280 00)</u>
Total other financing sources (uses)	<u>(5 000 00)</u>	<u>-</u>	<u>-</u>	<u>(280 00)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(9 773 33)	7 332 47	(5 895 30)	783 45
Fund balances, January 1	<u>47 955 04</u>	<u>69 517 03</u>	<u>17 860 14</u>	<u>27 670 60</u>
Fund Balances, December 31	<u><u>38 181 71</u></u>	<u><u>76 849 50</u></u>	<u><u>11 964 84</u></u>	<u><u>28 454 05</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
-	46 806 14
-	90 00
-	76 877 80
1 200 00	1 200 00
5 67	2 389 59
<u>100 00</u>	<u>3 095 50</u>
<u>1 305 67</u>	<u>130 459 03</u>
-	12 399 05
-	2 049 92
-	9 576 60
-	5 235 78
-	6 215 90
3 935 26	3 935 26
-	480 00
-	27 342 08
-	45 084 42
-	5 710 62
297 68	297 68
-	13 499 01
-	<u>3 832 69</u>
<u>4 232 94</u>	<u>135 659 01</u>
<u>(2 927 27)</u>	<u>(5 199 98)</u>
1 280 00	1 280 00
-	(5 280 00)
<u>1 280 00</u>	<u>(4 000 00)</u>
(1 647 27)	(9 199 98)
<u>3 649 60</u>	<u>166 652 41</u>
<u>2 002 33</u>	<u>157 452 43</u>

VILLAGE OF HERSEY
Osceola County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended December 31, 2006

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (9 199 98)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(2 159 41)
Capital Outlay	-

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	-
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>(11 359 39)</u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF HERSEY
Osceola County, Michigan

STATEMENT OF NET ASSETS – BUSINESS-TYPE FUNDS
December 31, 2006

	<u>Blodgett Landing Park Fund</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>2 008 27</u>
Total Current Assets	<u>2 008 27</u>
NONCURRENT ASSETS:	
Capital Assets	400 516 26
Less: Accumulated Depreciation	<u>(34 329 00)</u>
Total Noncurrent Assets	<u>366 187 26</u>
TOTAL ASSETS	<u>368 195 53</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Due to General Fund	<u>11 193 00</u>
Total Current Liabilities	<u>11 193 00</u>
NONCURRENT LIABILITIES:	
Bonds payable	139 000 00
Contract payable	<u>34 000 00</u>
Total Noncurrent Liabilities	<u>173 000 00</u>
Total Liabilities	<u>184 193 00</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	181 994 26
Unrestricted	<u>2 008 27</u>
Total Net Assets	<u>184 002 53</u>
TOTAL LIABILITIES AND NET ASSETS	<u>368 195 53</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HERSEY
Osceola County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –
BUSINESS-TYPE FUNDS

Year ended December 31, 2006

	<u>Blodgett Landing Park Fund</u>
OPERATING REVENUES:	
Charges for services	19 815 50
Miscellaneous	<u>100 00</u>
Total Operating Revenues	<u>19 915 50</u>
OPERATING EXPENSES:	
Culture and recreation:	
Wages	4 076 00
Supplies	1 340 74
Utilities	3 682 68
Repairs and maintenance	893 39
Miscellaneous	624 03
Depreciation	<u>11 443 00</u>
Total Operating Expenses	<u>22 059 84</u>
Operating Income (loss)	<u>(2 144 34)</u>
NONOPERATING REVENUES (EXPENSES):	
Transfers in	4 000 00
Interest income	12 30
Interest expense	<u>(7 533 90)</u>
Total Nonoperating Expenses	<u>(3 521 60)</u>
Change in net assets	(5 665 94)
Net assets, beginning of year	<u>189 668 47</u>
Net Assets, End of Year	<u><u>184 002 53</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HERSEY
Osceola County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS TYPE FUNDS
Year ended December 31, 2006

	<u>Blodgett Landing Park Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	19 915 50
Cash payments to employees for services	(4 076 00)
Cash payments to suppliers	<u>(6 540 84)</u>
Net cash provided (used) by operating activities	<u>9 298 66</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Transfers from other funds	<u>4 000 00</u>
Net cash provided (used) by non-capital financing activities	<u>4 000 00</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal on long-term debt	(6 000 00)
Interest on long-term debt	<u>(7 533 90)</u>
Net cash provided (used) by capital and related financing activities	<u>(13 533 90)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	<u>12 30</u>
Net increase (decrease) in cash	(222 94)
Cash beginning of year	<u>2 231 21</u>
Cash End of Year	<u><u>2 008 27</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Income (loss) from operations	(2 144 34)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	<u>11 443 00</u>
Net Cash Provided (Used) by Operating Activities	<u><u>9 298 66</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HERSEY
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Hersey, Osceola County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Hersey. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business-type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

VILLAGE OF HERSEY
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

General and Special Revenue Funds

The General Fund, the Major Street Fund, the Local Street Fund, the Ball Park Fund and the Cemetery Fund receive and account for the monies collected to provide the general governmental services of the Village. The General Fund is used to account for all transactions not properly accounted for in any other fund.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Blodgett Landing Park enterprise fund are charges to customers for services. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Permanent Fund

The Cemetery Perpetual Care Fund reports resources that are legally restricted.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31. The Village 2006 tax roll millage rate was 10.2707 mills, and the taxable value was \$4,557,249.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

VILLAGE OF HERSEY
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	35 years
Vehicles and equipment	15 years

Compensated Absences (Vacation and Sick Leave)

Village employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.

VILLAGE OF HERSEY
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated two banks for the deposit of Village funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>124 889 29</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	127 650 13
Uninsured and Uncollateralized	<u>-</u>
Total Deposits	<u>127 650 13</u>

The Village of Hersey did not have any investments as of December 31, 2006.

VILLAGE OF HERSEY
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 4 – Capital Assets

Capital asset activity of the Village's Governmental and Business-Type activities for the current year was as follows:

	<u>Balance 1/1/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/06</u>
<u>Governmental Activities:</u>				
Land	25 505 00	-	-	25 505 00
Equipment	<u>32 391 13</u>	<u>-</u>	<u>-</u>	<u>32 391 13</u>
Total	57 896 13	-	-	57 896 13
Accumulated Depreciation	<u>(10 963 12)</u>	<u>(2 159 41)</u>	<u>-</u>	<u>(13 122 53)</u>
Net Governmental Capital Assets	<u>46 933 01</u>	<u>(2 159 41)</u>	<u>-</u>	<u>44 773 60</u>
<u>Business-Type Activities:</u>				
Blodgett Landing Park	400 516 26	-	-	400 516 26
Accumulated Depreciation	<u>(22 886 00)</u>	<u>(11 443 00)</u>	<u>-</u>	<u>(34 329 00)</u>
Net Business-Type Capital Assets	<u>377 630 26</u>	<u>(11 443 00)</u>	<u>-</u>	<u>366 187 26</u>

Note 5 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	11 193 00	Blodgett Landing Park	11 193 00
Major Street	2 282 15	General	2 282 15
Local Street	<u>1 111 98</u>	General	<u>1 111 98</u>
Total	<u>14 587 13</u>	Total	<u>14 587 13</u>

VILLAGE OF HERSEY
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 6 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Blodgett Landing Park Fund</u>		
	<u>Bonds Payable</u>	<u>Contract Payable</u>	<u>Total</u>
Debt Payable – Beginning of Year	143 000 00	36 000 00	179 000 00
Debt Retired	4 000 00	2 000 00	6 000 00
Debt Payable – End of Year	<u>139 000 00</u>	<u>34 000 00</u>	<u>173 000 00</u>
<u>General Obligation, Limited Tax Bonds</u>			
\$150,000.00, 2003 Blodgett Park bonds due in annual installments of \$3,000.00 to \$15,000.00 through November 1, 2023; interest from 2.30% to 4.40%			139 000 00
<u>Installment Purchase Agreement</u>			
\$40,000.00 Blodgett Park installment agreement is due in annual installments of \$2,000.00 to \$3,000.00 through November 1, 2018; plus interest at 4.64%			<u>34 000 00</u>
Total			<u>173 000 00</u>

Note 7 – Blodgett Landing Park Bonds Payable

<u>TITLE OF ISSUE</u>	Village Share Bonds Series 2003
<u>PURPOSE</u>	Construction of Blodgett Landing Park
<u>DATE OF ISSUE</u>	June 2, 2003
<u>INTEREST RATE</u>	2.30% TO 4.40%
<u>INTEREST PAYABLE</u>	November 1
<u>AMOUNT OF ISSUE</u>	150 000 00
<u>AMOUNT REDEEMED</u>	
Prior to Current Period	7 000 00
During Current Period	<u>4 000 00</u>
<u>BALANCE OUTSTANDING – December 31, 2006</u>	<u>139 000 00</u>

VILLAGE OF HERSEY
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

Note 7 – Blodgett Landing Park Bonds Payable (continued)

SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS

<u>Due Date</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
November 1, 2007	9 747 00	5 747 00	4 000 00
November 1, 2008	10 623 00	5 623 00	5 000 00
November 1, 2009	10 459 00	5 459 00	5 000 00
November 1, 2010	10 286 00	5 286 00	5 000 00
November 1, 2011	10 106 00	5 106 00	5 000 00
November 1, 2012	10 919 00	4 919 00	6 000 00
November 1, 2013	10 684 00	4 684 00	6 000 00
November 1, 2014	10 445 00	4 445 00	6 000 00
November 1, 2015	11 198 00	4 198 00	7 000 00
November 1, 2016	10 905 00	3 905 00	7 000 00
November 1, 2017	11 607 00	3 607 00	8 000 00
November 1, 2018	11 267 00	3 267 00	8 000 00
November 1, 2019	14 923 00	2 923 00	12 000 00
November 1, 2020	15 407 00	2 407 00	13 000 00
November 1, 2021	14 841 00	1 841 00	13 000 00
November 1, 2022	15 276 00	1 276 00	14 000 00
November 1, 2023	15 660 00	660 00	15 000 00
Total	<u>204 353 00</u>	<u>65 353 00</u>	<u>139 000 00</u>

PRIOR REDEMPTION

Bonds will be subject to redemption prior to maturity at the option of the Village, in any order, in whole or part, in integral multiples of \$1,000.00, on any date, at par, plus accrued interest to the redemption date.

Note 8 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 9 – Pension Plan

The Village does not have a pension plan.

Note 10 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 11 – Reserved Fund Balances

The fund balance in the Cemetery Perpetual Care Fund includes a reservation of \$28,454.05.

VILLAGE OF HERSEY
Osceola County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2006

Note 12 – Transfers In and Transfers Out

For the fiscal year ended December 31, 2006, the Village made the following interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	-	5 000 00
Ball Park	1 000 00	-
Blodgett Landing Park	4 000 00	-
Total	<u>5 000 00</u>	<u>5 000 00</u>

Note 13 – Budget Variances

For the fiscal year ended December 31, 2006, the Village's expenditures exceeded the budgeted amounts in the following activities:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund Activity:			
Department of Public Works	19 000 00	27 342 08	8 342 08
Payroll taxes	2 125 00	3 832 69	1 707 69

Note 14 – Building Permits

The Village does not issue building permits.

VILLAGE OF HERSEY
Osceola County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	34 000 00	46 180 00	46 806 14	626 14
Licenses and permits	45 00	45 00	90 00	45 00
State revenue sharing	32 100 00	31 900 00	33 899 72	1 999 72
Interest	20 00	20 00	35 86	15 86
Miscellaneous	<u>700 00</u>	<u>700 00</u>	<u>736 60</u>	<u>36 60</u>
Total revenues	<u>66 865 00</u>	<u>78 845 00</u>	<u>81 568 32</u>	<u>2 723 32</u>
Expenditures:				
Legislative:				
Village Council	15 000 00	15 000 00	12 399 05	(2 600 95)
General government:				
President	2 400 00	2 400 00	2 049 92	(350 08)
Audit	4 500 00	4 500 00	-	(4 500 00)
Clerk	10 500 00	10 000 00	9 576 60	(423 40)
Treasurer	5 500 00	6 000 00	5 235 78	(764 22)
Village hall and grounds	8 000 00	8 000 00	6 215 90	(1 784 10)
Public safety:				
Planning and zoning	600 00	600 00	480 00	(120 00)
Public works:				
Department of Public Works	19 000 00	19 000 00	27 342 08	8 342 08
Street lighting	6 000 00	6 000 00	5 710 62	(289 38)
Recreation and culture:				
Parks	15 500 00	15 500 00	13 499 01	(2 000 99)
Other:				
Payroll taxes	<u>2 125 00</u>	<u>2 125 00</u>	<u>3 832 69</u>	<u>1 707 69</u>
Total expenditures	<u>89 125 00</u>	<u>89 125 00</u>	<u>86 341 65</u>	<u>(2 783 35)</u>
Excess (deficiency) of revenues over expenditures	<u>(22 260 00)</u>	<u>(10 280 00)</u>	<u>(4 773 33)</u>	<u>5 506 67</u>
Other financing sources (uses):				
Operating transfers out	<u>(3 500 00)</u>	<u>(3 500 00)</u>	<u>(5 000 00)</u>	<u>(1 500 00)</u>
Total other financing sources (uses)	<u>(3 500 00)</u>	<u>(3 500 00)</u>	<u>(5 000 00)</u>	<u>(1 500 00)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(25 760 00)	(13 780 00)	(9 773 33)	4 006 67
Fund balance, January 1	<u>26 000 00</u>	<u>22 200 00</u>	<u>47 955 04</u>	<u>25 755 04</u>
Fund Balance, December 31	<u>240 00</u>	<u>8 420 00</u>	<u>38 181 71</u>	<u>29 761 71</u>

VILLAGE OF HERSEY
Osceola County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Year ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	27 500 00	27 500 00	28 903 94	1 403 94
Interest	170 00	70 00	978 78	908 78
Miscellaneous	-	-	1 735 40	1 735 40
Total revenues	<u>27 670 00</u>	<u>27 570 00</u>	<u>31 618 12</u>	<u>4 048 12</u>
Expenditures:				
Public works:				
Highways and streets	<u>28 800 00</u>	<u>29 100 00</u>	<u>24 285 65</u>	<u>(4 814 35)</u>
Total expenditures	<u>28 800 00</u>	<u>29 100 00</u>	<u>24 285 65</u>	<u>(4 814 35)</u>
Excess (deficiency) of revenues over expenditures	(1 130 00)	(1 530 00)	7 332 47	8 862 47
Fund balance, January 1	<u>63 000 00</u>	<u>67 000 00</u>	<u>69 517 03</u>	<u>2 517 03</u>
Fund Balance, December 31	<u>61 870 00</u>	<u>65 470 00</u>	<u>76 849 50</u>	<u>11 379 50</u>

VILLAGE OF HERSEY
Osceola County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND
Year ended December 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	15 000 00	15 000 00	14 074 14	(925 86)
Interest	10 00	10 00	305 83	295 83
Miscellaneous	<u>-</u>	<u>-</u>	<u>523 50</u>	<u>523 50</u>
Total revenues	<u>15 010 00</u>	<u>15 010 00</u>	<u>14 903 47</u>	<u>(106 53)</u>
Expenditures:				
Public works:				
Highways and streets	<u>22 185 00</u>	<u>22 185 00</u>	<u>20 798 77</u>	<u>(1 386 23)</u>
Total expenditures	<u>22 185 00</u>	<u>22 185 00</u>	<u>20 798 77</u>	<u>(1 386 23)</u>
Excess (deficiency) of revenues over expenditures	(7 175 00)	(7 175 00)	(5 895 30)	1 279 70
Fund balance, January 1	<u>16 600 00</u>	<u>15 100 00</u>	<u>17 860 14</u>	<u>2 760 14</u>
Fund Balance, December 31	<u>9 425 00</u>	<u>7 925 00</u>	<u>11 964 84</u>	<u>4 039 84</u>

VILLAGE OF HERSEY
Osceola County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT

Year ended December 31, 2006

Village Council:	
Wages	4 680 00
Professional services	160 84
Printing and publishing	359 34
Insurance	6 393 00
Miscellaneous	805 87
	<u>12 399 05</u>
President:	
Wages	50 00
Wages- President pro tem	1 999 92
	<u>2 049 92</u>
Clerk:	
Salary	6 875 00
Office supplies	1 080 81
Office rent	600 00
Miscellaneous	1 020 79
	<u>9 576 60</u>
Treasurer:	
Salary	3 999 76
Salary- deputy treasurer	10 00
Office supplies	429 52
Professional services	196 50
Office rent	600 00
	<u>5 235 78</u>
Village hall and grounds:	
Wages	968 00
Insurance	1 157 50
Utilities	1 902 88
Repairs and maintenance	2 187 52
	<u>6 215 90</u>
Planning and zoning:	
Wages	480 00
	<u>480 00</u>
Department of Public Works:	
Wages	11 528 00
Operating supplies	6 654 80
Sidewalks	627 39
Utilities	2 324 46
Repairs and maintenance	6 207 43
	<u>27 342 08</u>
Street lighting:	
Utilities	5 710 62
	<u>5 710 62</u>
Parks:	
Salaries	9 377 50
Repairs and maintenance	2 963 39
Miscellaneous	1 158 12
	<u>13 499 01</u>
Payroll taxes	<u>3 832 69</u>
Total Expenditures	<u>86 341 65</u>

VILLAGE OF HERSEY
Osceola County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
December 31, 2006

	<u>Major Street</u>	<u>Local Street</u>	<u>Ball Park</u>	<u>Cemetery</u>
<u>Assets</u>				
Cash in bank	70 234 76	8 744 50	1 752 62	249 71
Due from State of Michigan	4 332 59	2 108 36	-	-
Due from other funds	<u>2 282 15</u>	<u>1 111 98</u>	<u>-</u>	<u>-</u>
Total Assets	<u><u>76 849 50</u></u>	<u><u>11 964 84</u></u>	<u><u>1 752 62</u></u>	<u><u>249 71</u></u>
<u>Liabilities and Fund Balances</u>				
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Unreserved:				
Undesignated	<u>76 849 50</u>	<u>11 964 84</u>	<u>1 752 62</u>	<u>249 71</u>
Total fund balances	<u><u>76 849 50</u></u>	<u><u>11 964 84</u></u>	<u><u>1 752 62</u></u>	<u><u>249 71</u></u>
Total Liabilities and Fund Balances	<u><u>76 849 50</u></u>	<u><u>11 964 84</u></u>	<u><u>1 752 62</u></u>	<u><u>249 71</u></u>

Total

80 981 59
6 440 95
3 394 13

90 816 67

-
-

90 816 67
90 816 67

90 816 67

VILLAGE OF HERSEY
Osceola County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
ALL SPECIAL REVENUE FUNDS
Year ended December 31, 2006

	<u>Major Street</u>	<u>Local Street</u>	<u>Ball Park</u>	<u>Cemetery</u>
Revenues:				
State revenue sharing	28 903 94	14 074 14	-	-
Charges for services	-	-	-	1 200 00
Interest	978 78	305 83	2 30	3 37
Miscellaneous	<u>1 735 40</u>	<u>523 50</u>	<u>100 00</u>	<u>-</u>
Total revenues	<u>31 618 12</u>	<u>14 903 47</u>	<u>102 30</u>	<u>1 203 37</u>
Expenditures:				
General government:				
Cemetery	-	-	-	3 935 26
Public works:				
Highways and streets	24 285 65	20 798 77	-	-
Culture and recreation:				
Recreation	<u>-</u>	<u>-</u>	<u>297 68</u>	<u>-</u>
Total expenditures	<u>24 285 65</u>	<u>20 798 77</u>	<u>297 68</u>	<u>3 935 26</u>
Excess (deficiency) of revenues over expenditures	<u>7 332 47</u>	<u>(5 895 30)</u>	<u>(195 38)</u>	<u>(2 731 89)</u>
Other financing sources (uses):				
Operating transfers in	<u>-</u>	<u>-</u>	<u>1 000 00</u>	<u>280 00</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1 000 00</u>	<u>280 00</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	7 332 47	(5 895 30)	804 62	(2 451 89)
Fund balances, January 1	<u>69 517 03</u>	<u>17 860 14</u>	<u>948 00</u>	<u>2 701 60</u>
Fund Balances, December 31	<u>76 849 50</u>	<u>11 964 84</u>	<u>1 752 62</u>	<u>249 71</u>

Total
42 978 08
1 200 00
1 290 28
2 358 90
47 827 26

3 935 26
45 084 42
297 68
49 317 36

(1 490 10)

1 280 00
1 280 00

(210 10)
91 026 77
90 816 67

VILLAGE OF HERSEY
Osceola County, Michigan

BALANCE SHEET – PERMANENT FUND
December 31, 2006

	<u>Cemetery Perpetual Care</u>
<u>Assets</u>	
Cash in bank	<u>28 454 05</u>
Total Assets	<u>28 454 05</u>
<u>Liabilities and Fund Balance</u>	
Liabilities:	
Total liabilities	<u>-</u>
Fund balance:	
Reserved	<u>28 454 05</u>
Total fund balance	<u>28 454 05</u>
Total Liabilities and Fund Balance	<u>28 454 05</u>

VILLAGE OF HERSEY
Osceola County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
PERMANENT FUND

Year ended December 31, 2006

	<u>Cemetery Perpetual Care</u>
Revenues:	
Interest	<u>1 063 45</u>
Total revenues	<u>1 063 45</u>
Expenditures	<u>-</u>
Total expenditures	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>1 063 45</u>
Other financing sources (uses):	
Operating transfers out	<u>(280 00)</u>
Total other financing sources (uses)	<u>(280 00)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	783 45
Fund balance, January 1	<u>27 670 60</u>
Fund Balance, December 31	<u>28 454 05</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

February 16, 2007

To the Village Council
Village of Hersey
Osceola County, Michigan

We have audited the financial statements of the Village of Hersey for the year ended December 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Village of Hersey in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Village Council
Village of Hersey
Osceola County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated December 31, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants